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"HOW'D THEY DO THAT?"

That question could apply to many things: It applies in the context of improbable, one-time events. One example that comes immediately to my mind is the New York Giants' 2008 Super Bowl victory over the New England Patriots, aided in large part by a fourth quarter, one-handed, helmet-aided catch by little used reserve David Tyree.

But that question can also be asked of those people or entities who demonstrate consistent excellence over a long period of time. A snap of the fingers causes me to think of Roger Federer and his 21 straight appearances in the semi-finals or better of the four men's major tennis tournaments over the last five years, his unprecedented 20 career Grand Slam finals, as well as his record-shattering 15 Grand Slam titles, including last week's victory at Wimbledon.

"How do you do what you do?" is also a question frequently asked of Chip and me regarding Westover's investment philosophy and its performance.

I like to think we emulate Mr. Federer more than Mr. Tyree. This past week a good friend, grandfather extraordinaire and early morning regular at the coffee shop in Greenville, Tom Ciconte, asked me to explain how Westover "does its thing" as well as "how well it does its thing". Just as you can't see the complete body of Federer's work by viewing just his first set loss in his match against Andy Roddick in the Wimbledon final, I also can't answer that question in a 5-minute conversation at the Brew HaHa!

So to answer his question, I sent Tom an email with two documents. The first is what we call our Pitch Book which highlights both Westover's philosophy as well as our performance over the last three years. The second is our most recent one-year performance comparison for 2008 relative to two large Morningstar blended stock/bond categories and the mutual funds which comprise those categories.

"Eureka" thought I. I should do the same for those on this Westover mailing list because then each of you will have that same detail. And I won't need to drink five skinny lattes when I'm asked to explain the details of how we do what we do the next time I'm collared at the Brew HaHa! (I've actually picked up a wonderful client that way, a retired attorney and his wife, but expecting to find clients at the coffee shop does not appear to be a business model with long-term staying power).

So, herewith, I attach for your reading enjoyment and pleasure the same two documents I sent Tom.

Philosophy

1. Don't let John Dillinger (or Johnny Depp) in the front door of your bank. Safeguard your clients' accounts as you would your own.

We do. All Sawyer family accounts are invested along side our Westover client accounts, using the same criteria for stock and bond picking, trading and timing.

2. Serena and Venus Williams may be sisters but they're not identical twins. Recognize the individuality of each client and his, her or its particular needs and circumstances.

We do. Our five different asset allocation models acknowledge and confirm those individual differences. In this present environment, we also have a few clients who want bonds or stocks exclusively. We're happy to oblige.

3. Think of the personality of Mr. Federer. Be humble when dealing with Mr. Market but have confidence in your beliefs.

We are. Last year's 40% downside stock slide was an agonizing lesson in the need for market humility, yet our steadfast belief in the methodology we employ for our stock and bond selections was strongly authenticated under the most trying of circumstances.

4. Where have you gone Joe DiMaggio? This ain't your father's stock market.

We know. Considering "buy and hold" as the single best, immutable investment philosophy for the year 2009 is as valid as saying Ozzie and Harriet should still be the parents of the year in this, the first year of the Obama administration. What worked beautifully in the '50s does not work as well today. Buying stocks for both the long **and** the short haul is as necessary an ingredient in today's environment as is knowing at what price point to make your entry.

Performance*

As you will see should you read the two attachments, we've bested the S&P 500 and the international MSCI EAFE stock market index over the past three years. That's no guarantee of future performance. We're humble enough to figure that in this wrestling match Mr. Market will pin us sooner or later. But since he successfully takes about three out of four investment advisors to the mat every year and since we've avoided that ignominy, we consider Westover's consistently strong performance a validation of our investment philosophy.

On a relative basis, Westover has beaten the US S&P 500 index by 3.0% annually over the last three full years. We've outperformed the EAFE by 3.6% annually during that period of time as well. Results like that might even bring a slight smile to Mr. Federer's face.

Speaking of Federer, the player Pete Sampras acknowledges as "the best of all time," it's instructive to realize that even he is not perfect. In the 2008 Wimbledon final he played the Roddick role in his 5-set loss to Rafael Nadal. He was brought to tears after his Grand Slam finals loss to Nadal this January in the Australian Open. This spring he broke his racket courtside in frustration after a loss to Novak Djokovich. And his lifetime record against Andy Murray and Rafael Nadal is an unimpressive 9 wins, 19 losses. Yet, his supremacy in the world of tennis is now complete. If Federer is not the best player of all time, he's certainly the best player of this generation.

Pardon me for saying it but I feel that last year our performance for our clients was Federer-like.

When we compared our money management performance against fellow professionals who were using a similar blend of stocks and bonds in their portfolios with an allocation similar to our models, we found that Westover's ranking, compared to those followed by Morningstar, and depending on the model chosen, would have ranged from their 73rd percentile to their 99th percentile.

Morningstar tracks two types of category returns which we felt most closely looked like our five models. The first they call their Conservative Allocation fund category. These are mutual funds which place anywhere from 20% to 50% of their holdings in stocks, with the remainder in bonds and cash. According to Morningstar, 629 funds followed that philosophy last year.

* Past performance does not guarantee future results. Morningstar category returns, category definitions and the results of Morningstar fund screens were obtained from Morningstar's website. All Westover performance returns were calculated by a third party, Merrill Lynch, and are gross of fees. Returns include only those accounts and assets held by the Maconi/McGuire group at Merrill Lynch. In 2008, 96% of Westover assets were custodized with that group. Westover model performance composites include only and all accounts that were managed for the entire measured time period and did not have a change in asset allocation model during that time period. Contact WCA for additional information.

Our Capital Preservation model (20% stocks), which lost but 1.1% for the year, would have been in Morningstar's 99th percentile for its Conservative Allocation category. Our Income model's (35% stocks) return of negative 7.5% would have been in the 94th percentile. And our Growth & Income model (50% stocks) which returned a negative 13.7% for the year would have placed it in the 85th percentile of Morningstar's tracked Conservative Allocation funds.

Morningstar calls its second category their Moderate Allocation fund category. There are 1,225 mutual funds in this category. These mutual funds typically stash 50%-70% in stocks, with the remainder invested in bonds and cash. You'll notice that 50% allocation falls across both the Conservative and Moderate Morningstar Allocation models. Accordingly our 50% model should be compared against both too.

Only 14 funds in Morningstar's Moderate Allocation category were able to better the negative 13.7% of our Growth & Income fund last year, placing that Westover model in Morningstar's 99th percentile.

Our Long Term Growth model (65% stocks) lost 16.4% for the year, placing it in the company of but 33 Morningstar funds with similar or better results for 2008; that's the 97th percentile.

And finally our Equity Markets Growth (80% stocks) model lost 25.9% for the year. It was in the top 334 of the 1,225 Morningstar tracked funds in this category. Yes, that's "just" the 73rd percentile, but that really isn't so bad when you realize the Morningstar category against which we were measured, their Moderate Allocation, puts 70% in stocks at the most and 50% at the least.

The advantage of employing an active money manager like Westover, rather than a passive one or a manager who slavishly holds fast to percentages when the world is crumbling around him, is that we adjust allocations when markets demand it; last year was a prime example. We started shedding stocks in mid-year relative to our clients' models. Without doubt, that strategic decision helped preserve our clients' capital.

Past performance is no guarantee of future performance; that's true for Federer and it's true for Westover. If you could make money betting on Federer, I think that'd be a pretty sure thing, but since you can't you might want to give us a call.

\$11,518,472,742,288

Count the digits in that number; I count 14. Do you know what it is? If you said it represents the US Treasury-calculated IOUs owed by Uncle Sam as of July 1, 2009, you'd be correct. It's our country's national debt as calculated by our government.

According to a USA Today analysis, at the end of 2008 our nation's federal obligations were a staggering \$546,668 per household. Taxpayers added \$55,000 per household of additional debt in 2008 in order to pay for increased retirement benefits, increased national debt and other government promises according to *USA Today*.

The Peter G. Peterson Foundation, established by a former Nixon commerce secretary, asserts that the \$11.5 trillion dollar figure is vastly understated because it does not count additional, "off the books" unfunded government retirement and health care commitments and unlisted liabilities of approximately \$45 trillion. Congress has set aside no money to pay for military and civil servant pensions or health care for retirees. Question: could a public company get away with that?

Regardless of whose numbers you choose, the former comptroller general of the US, David Walker, aptly describes the subject matter in the following language:

"We have a huge implicit mortgage on every household in America -- except, unlike a real mortgage, it's not backed up by a house."

Leaders in Washington from both parties have readily acknowledged this crisis in waiting. But let me ask you: do you believe they will show the fortitude required to solve it, recognizing the increased taxes and/or reduced services necessarily required in their decision making? Or will they just pass the crisis off to the next generation of leaders and to our children and their children hoping that they can gently inflate their way out of the problem? I'm afraid the older I get, the more of a skeptic I become.

If you took interest payments we made on the national debt alone for the last year, \$452 billion, and paid the money back in \$1 bills, they would circle the circumference of the earth 1.3 times, measuring 30,675 miles in length. That interest payment, not the reduction of indebtedness, is the fourth largest outlay of our government this year after Medicare-Medicaid, Social Security and defense.

Don't confuse the two "D" words. The "deficit" refers to the one-year shortfall when government spending exceeds revenues, while the national "debt" is the accumulated results of all those annual deficits. Reducing the deficit is nice, and we've actually had three years, 1998-2000, where we ran surpluses. Those were annual budget

surpluses, "reflecting in large part what turned out to be an overheated economy," according to Tom Raum of the Associated Press.

Today the US dollar is still considered the safest currency in the world. We borrow the money which comprises our debt by selling IOUs called Treasury bonds, notes and bills. Individuals and sovereign nations buy our paper promises, those IOUs.

At present China, Japan and the oil exporting countries of the Persian Gulf are the largest foreign holders of those IOUs. But as we spend trillions of dollars in alphabet soup programs - TARP, TALF, HASP, PPIP -- designed to stabilize the economy, we run the risk that continued confidence in our ability to repay those IOUs will diminish. Should that happen then our interest rates will rise, and inflation will become painfully real. And if those foreign holders of our debt were to reduce their appetite for our IOUs, it would send a severe shock to our already fragile economic system and a terrible blow to the value of our currency.

So what is in store for the future? More and more baby boomers will retire. This will increase demands for Social Security and Medicare payments. The Medicare prescription costs are burgeoning and no one has yet proposed a plan to get those costs under control either.

Some type of health care system will be passed in Washington this year which will add health care services to an additional 35% of the population. Those good people are not now covered and pay nothing today.

No matter how you slice the pie, the fact remains that more federal dollars will be spent in the health care arena than are spent now in order to place those not now covered under a private or public health care umbrella. And what if, just if, the so-called "savings" Washington is promising don't materialize? Peter Orszag, the White House budget director, was recently quoted as saying in the AP article noted above that if we can't create a more efficient health care system, then "We are on an utterly unsustainable fiscal course."

At the present time, and even before universal health care becomes a reality, the national debt is 80% of our nation's GDP. It was higher during World War II, briefly rising to 120%. But nevertheless it's a very large and growing number today, and one which will cast a huge and ominous shadow on the political debate in years to come.

It's not a crisis today, but it is akin to a series of Class 4 rapids which threaten to cast us over Niagara Falls tomorrow if we don't take precautions while we can.

I predict the person who best gets his or her arms around this number, and who best provides a solution to its reduction in a way that is most satisfying to the American public, will be our

President in 2016.

Listen to the Music

Carol Massih, a lovely and lively lady, was our winner of last quarter's quiz, the one which asked you to identify the singer of that NCAA basketball iconic anthem, "One Shining Moment." Luther Vandross was the correct answer, and many people got that one right.

This is a quiz for folks who are more into sports than music, and it plays out on the "Fortnight at Wimbledon" theme. There are three parts.

Pete Sampras flew to London to watch the finals this past Sunday, and in the so doing saw Roger Federer beat Pete's record of 14 men's tennis Grand Slam singles wins. Great as Mr. Federer's record is, there are five women who have won more singles Grand Slams than Roger.

Question #1: Can you name three of them? No internet sleuthing please.

Question #2: Name the player who lost to Sampras in Pete's first Grand Slam victory and the player who lost to him in his last. Hint: it was the same Hall of Famer both times. This gentleman was the fifth man to complete a career Grand Slam and he also has a connection to one of the ladies in question #1.

For all the people who have so far navigated those two answers correctly, here's your tiebreaker. But for it I must take you back to the world of numbers. You will remember that the TARP commitment, the money Washington implemented in order to stabilize our financial system, was \$700 billion. If you threw that money in denominations of \$100 dollar bills on the home field of the Philadelphia Eagles, the "Linc" of Lincoln Financial (a TARP taker by the way), completely covering the field, how many stories high would those Benjamins rise to? Assume ten feet per floor. Hint: it's more than one but less than ten.

A \$100 dinner gift certificate awaits the winner. Don't be a fuddy-duddy, play. Have fun.

Look for my Musings over the course of the summer. Chip and I hope you have a wonderful one.

July 31, 2009